

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-09 IO-10 H-01 L-02 PRS-01

PA-01 USIA-06 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15

STR-01 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /095 W

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P 070826Z MAR 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 0000

INFO AMEMBASSY WELLINGTON PRIORITY

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USADB

FOR NAC AGENCIES

E O 11652: ADS, DECLAS 6/7/75

TAGS: EAID, EFIN, WS

SUBJ: PROPOSED ADB LOAN AND TECHNICAL ASSISTANCE GRANT FOR
DEVELOPMENT BANK OF WESTERN SAMOA

SUMMARY: ADB MANAGEMENT PROPOSES \$1.0 MILLION EQUIVALENT LOAN FROM SPECIAL FUNDS RESOURCES AND \$90,000 TECHNICAL ASSISTANCE (TA) GRANT TO GOVERNMENT OF WESTERN SAMOA TO AUGMENT FOREX RESOURCES OF DEVELOPMENT BANK OF WESTERN SAMOA (DBWS) TO MEET MEDIUM AND LONG-TERM CREDIT REQUIREMENTS OF AGRICULTURAL AND INDUSTRIAL ENTERPRISES AND TO EXTEND SERVICES OF TWO CONSULTANTS IN ORDER TO CONSOLIDATE VALUE OF TRAINING AND GUIDANCE CURRENTLY BEING PROVIDED TO DBWS STAFF. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R 18-75 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN AND GRANT POUCHED ADDRESSEES FEBRUARY 28. BOARD CONSIDERATION SCHEDULED MARCH 20.

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2. ADB MANAGEMENT PROPOSING \$1.0 MILLION LOAN FROM SPECIAL FUNDS RESOURCES AND \$90,000 TA GRANT TO GOVERNMENT OF WESTERN SAMOA (GWS). PROCEEDS OF LOAN WOULD AUGMENT RESOURCES OF DBWS TO PROVIDE FINANCE TO AGRICULTURAL AND INDUSTRIAL ENTERPRISES INCLUDING SERVICE INDUSTRIES AND TOURISM. PROPOSED TERMS ARE 40 YEARS AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, 1 PERCENT INTEREST. GWS TO BE BORROWER. PROCEEDS OF LOAN WOULD BE RELENT TO DBWS WITH REPAYMENT TO GOVERNMENT WITHIN 15 YEARS INCLUDING MAXIMUM GRACE PERIOD OF THREE YEARS. REPAYMENT TO BE SYNCHRONIZED WITH REPAYMENT TERMS OF SUBLOANS GRANTED UNDER BANK LOAN. PROPOSED TA PROVIDES FOR EXTENSION OF CONTRACTS OF TWO EXPERTS, ONE OF WHOM IS ALSO SERVING AS GENERAL MANAGER OF DBWS, BEYOND PRESENT TERMS IN ORDER TO CONSOLIDATE VALUE OF TRAINING AND GUIDANCE PRESENTLY BEING PROVIDED TO STAFF.

3. WESTERN SAMOA'S ECONOMY IS BASICALLY AGRICULTURAL. INCREASING AGRICULTURAL PRODUCTION IS A BASIC DEVELOPMENT PRIORITY OF GOVERNMENT, AND EFFORTS ARE BEING MADE TO REDUCE DEPENDENCE ON TRADITIONAL EXPORT COMMODITIES (COCONUTS, COCOA AND BANANAS). MANUFACTURING TO DATE HAS PLAYED LIMITED ROLE IN ECONOMY DUE TO SMALL SIZE OF DOMESTIC MARKET, ABSENCE OF LOCAL RAW MATERIALS, SHORTAGE OF SKILLED LABOR, AND LACK OF MANAGEMENT AND ENTREPRENEURSHIP QUALITIES. HENCE, EXISTING INDUSTRIAL BASE IS MAINLY CONFINED TO AGRICULTURAL PROCESSING AND LIMITED LIGHT CONSUMER GOODS INDUSTRIES. HOWEVER, GOVERNMENT IS MAKING CONSIDERABLE EFFORTS TO PROPOTE INDUSTRY THROUGH TAX HOLIDAYS AND FULL OR PARTIAL IMPORT DUTY EXEMPTIONS ON IMPORTED RAW MATERIALS, MACHINERY, ETC.

4. IN JANUARY 1973 BANK APPROVED \$217,000 TA GRANT TO UPGRADE DEVELOPMENT DEPARTMENT (DD) OF BANK OF WESTERN SAMOA, WHICH WAS ESTABLISHED IN 1965, AIMED AT DEVELOPING IT INTO DEVELOPMENT BANK. UNDER TA, SENIOR DEVELOPMENT BANK EXPERT AND LOAN OPERATIONS EXPERT STARTED WORK IN AUGUST 1973. (INDUSTRIAL PROMOTION EXPERT, WHOSE APPOINTMENT WAS POSTPONED DUE TO DD'S SHORTAGE OF FUNDS, IS EXPECTED TO JOIN TEAM BY JUNE/JULY 1975.) DBWS FORMALLY CAME INTO EXISTENCE OCTOBER 1, 1974. LEADER OF BANK TA TEAM (SENIOR INSTITUTIONAL EXPERT), WHO IS EXPERIENCED AUSTRALIAN COMMERCIAL BANKER WITH 5 1/2 YEARS' EXPERIENCE AS OPERATIONS MANAGER OF PAPUA NEW GUINEA DEVELOPMENT BANK, IS WORKING AS GENERAL MANAGER. A WESTERN SAMOAN IS ASSISTANT MANAGER, AND IT IS EXPECTED HE MAY LIMITED OFFICIAL USE

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QUALIFY EVENTUALLY TO REPLACE PRESENT EXPATRIATE GENERAL MANAGER. UNDER BANK TA, DEVELOPMENT AND TRAINING OF STAFF HAVE RECEIVED MAJOR EMPHASIS. SAMOAN STAFF MAINLY SUPERVISES AGRICULTURAL LOANS. HOWEVER, THEY STILL LACK NECESSARY DEPTH AND EXPERIENCE TO HANDLE INDUSTRIAL PROJECTS INDEPENDENTLY, WHICH ARE SUPERVISED BY EXPATRIATE LOAN OPERATIONS EXPERT.

5. GWS WILL BEAR FOREX RISK IN RELENDING PROPOSED BANK LOAN, BUT

MAY PASS ON RISK TO SUB-BORROWERS WHERE SUBLOANS EXCEED \$200,000
OR WHERE THERE IS SUBSTANTIAL FOREIGN PARTICIPATION IN ENTERPRISE.
IT WILL ALLOW DBWS TO CHARGE AT LEAST 9 PERCENT INTEREST

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-09 H-01 L-02 CIAE-00 DODE-00

INR-07 NSAE-00 PA-01 USIA-06 PRS-01 SP-02 AID-05

EB-07 NSC-05 CIEP-01 SS-15 STR-01 OMB-01 CEA-01

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TO SECSTATE WASHDC PRIORITY 1149

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FOR INDUSTRIAL LOANS BUT WITH MINIMUM AVERAGE OF 10.25
PERCENT AND AT LEAST 8 PERCENT FOR AGRICULTURAL LOANS WITH 9
PERCENT MINIMUM AVERAGE.

6. TA TEAM HAS MADE CONCERTED DRIVE TO COLLECT AND RESCHEDULE
OLD DEBTS INCURRED DURING DD PERIOD. ALLOWANCE FOR DOUBTFUL DEBTS
ON OLD LOANS CONSIDERED ADEQUATE. NEW LOANS ARE ADEQUATELY SEC-
URED, AND DBWS HAS AGREED TO ALLOCATE AT LEAST 3 PERCENT OF ANNUAL
LOAN APPROVALS FOR BAD DEBTS UNTIL TOTAL REACHES 10 PERCENT OF
PORTFOLIO.

7. PROPOSED BANK LOAN TO BE USED MAINLY TO COVER MOST OF 1975/
1976 FOREX REQUIREMENTS OF ABOUT \$1.3 MILLION; REMAINDER TO BE
COVERED FROM DBWS LOCAL CURRENCY RESOURCES, WHICH GOVERNMENT
WOULD CONVERT INTO FOREIGN EXCHANGES. LOCAL CURRENCY REQUIREMENTS
FOR TWO-YEAR PERIOD TO BE FINANCED BY LOAN COLLECTIONS AND ADDI-
TIONAL CAPITAL CONTRIBUTIONS BY GWS AND NEW ZEALAND AID GRANT.
GOVERNMENT HAS AGREED TO COVER ANY DEFICIT OR LOSS FROM DBWS
OPERATIONS (SIDE LETTER NO. 2, PARA. 6).

8. GWS TO CHARGE DBWS 6 PERCENT PER ANNUM INTEREST ON BANK LOAN RELENDING. THIS WOULD PROVIDE DBWS WITH AVERAGE INTEREST SPREAD LIMITED OFFICIAL USE

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OF 4.25 PERCENT ON INDUSTRIAL LOANS AND 3 PERCENT ON AGRICULTURAL LOANS IN ORDER TO COVER ADMINISTRATIVE EXPENSES AND CREATE ADEQUATE RESERVE.

9. PRIOR APPROVAL OF BANK TO BE REQUIRED OF ALL LOAN APPLICATIONS ABOVE \$30,000. ON OFF-THE-SHELF PURCHASE OF MACHINERY/EQUIPMENT UP TO \$30,000, BANK PROPOSES TO REIMBURSE 75 PERCENT OF FOREX COST AND TO REIMBURSE 60 PERCENT OF CONSTRUCTION CONTRACTS UP TO SAME AMOUNT. BANK ALSO PROPOSES TO AUTHORIZE "REASONABLE COMPETITION" FOR CONTRACTS UP TO \$150,000 AND "INTERNATIONAL SHOPPING" BETWEEN \$150,000 AND \$300,000. AS DBWS CEILING FOR MAXIMUM COMMITMENTS LIKELY TO REMAIN BELOW \$300,000 UNTIL 1976. NO INTERNATIONAL COMPETITIVE BIDDING (ICB) IS CONTEMPLATED. HOWEVER, SHOULD ANY SUB-LOANS EXCEED \$300,000, USADB WILL RECOMMEND THAT ICB BE FOLLOWED. WILL ALSO RECOMMEND THAT BANK REVIEW ALL BIDS IN COMPLIANCE WITH ICB PROCEDURES.

10. TERMS OF SENIOR INSTITUTIONAL EXPERT AND LOAN OPERATIONS EXPERT WILL EXPIRE IN AUGUST AND OCTOBER 1975, RESPECTIVELY. PROPOSED TA WILL PERMIT EXTENSION OF FORMER'S TERM BY ADDITIONAL 16 MONTHS AND LATTER'S BY ONE YEAR IN ORDER TO FACILITATE IMPLEMENTATION OF PROPOSED LOAN. ALTHOUGH TA IS ESSENTIALLY OF IMPLEMENTAL NATURE AND NORMALLY SHOULD BE INCORPORATED IN LOAN, BANK PROPOSES THAT GRANT BE EXTENDED, AS SPECIAL CASE, IN VIEW COUNTRY'S "LATEST DEVELOPED" ECONOMIC STATUS, PIONEERING NATURE OF DBWS ACTIVITIES AND DBWS'S STAGE OF DEVELOPMENT. DBWS WILL MEET LOCAL COST INVOLVED, ESTIMATED AT \$10,000 EQUIVALENT.

11. BANK RECOGNIZES THAT DBWS LACKS EXPERIENCE IN LOAN PROCESSING. THUS, CONTINUATION OF TA CONSIDERED ESSENTIAL TO INSURE CAREFUL SCRUTINY OF DBWS OPERATIONS. THERE WILL BE PRIOR CONSULTATION WITH BANK ON ANY IMPORTANT CHANGES IN DBWS MANAGEMENT AND POLICIES. FREQUENT ADB REVIEW MISSIONS ARE CONTEMPLATED. AS PIONEERING BODY, DBWS ACTIVITIES ARE HELPING CAUSE SIGNIFICANT CHANGES IN COUNTRY'S ECONOMIC AND SOCIAL STRUCTURE, AS 75 PERCENT OF CUSTOMERS ARE AT GRASSROOTS LEVEL. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

12. REQUEST WELLINGTON'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
SULLIVAN
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Message Attributes

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